DOES VOLUME PRICE CONFIRMATION INDICATOR IMPROVE FAMOUS INVESTOR MODELS

Matt Lutey, Morehouse College, U.S.A.

dx.doi.org/10.18374/JIFE-24-4.3

ABSTRACT

We apply the Volume Price Confirmation Indicator to a simplified version of the Famous Stock Investor portfolios from the American Association of Individual Investors. Specifically, we use a streamlined portfolio known as Abriged Can Slim, alongside CAN SLIM, Joel Greenblatt, Benjamin Graham, and Warren Buffett methodologies. Our findings reveal that while each portfolio individually outperforms the S&P 500 since 1999, incorporating the Volume Price Confirmation Indicator enhances their returns on a risk-adjusted basis. The Volume Price Confirmation Indicator alone also surpasses the S&P 500 since 1999, independent of the Famous Investor methodologies.

Our analysis covers the period from 1999 to 2024, using the S&P 500 index to construct our portfolios. We present results for annualized return, total return over one, three, and five-year periods, as well as since inception. Additionally, we provide metrics such as R-squared, beta, and maximum drawdown. The implementation code is also included. These results offer valuable insights for student investment funds and portfolio managers, helping to bridge the gap between academic finance and practical investment strategies.

Keywords: *Technical Analysis, Fundamental Analysis, Famous Investor Portfolios.*

1. INTRODUCTION

The Volume Price Confirmation Indicator (VPCI), engineered by Buff Dormeier, CMT, is designed to identify stock trends. In technical analysis, stocks that exhibit clear trends are often more likely to perform well, a principle akin to momentum investing. Trends are determined by supply and demand, as indicated by volume, which measures the flow of money in or out of a stock. The VPCI is constructed using moving averages, volume averages, and volume-weighted averages, incorporating both fast and slow periods in its calculations.

Literature has demonstrated that both moving averages and volume can be predictive of stock prices. For instance, Blume, Easley, and O'Hara (1999) highlight the predictive power of volume, while Brock et al. (1999) discuss the predictive ability of moving averages and trading range breakouts. Later studies, such as Han et al. (2014), show how moving averages can time portfolios sorted by volatility, and Arvamov et al. (2021) use two moving averages to create a timing indicator based on the difference between fast and slow moving averages.

In technical analysis, moving averages and price momentum are closely related. Stocks trading above their moving averages are expected to continue rising, similar to momentum investing. Lo, Mamaysky, and Wang (2000) explore how stocks with nonlinear price patterns on increasing volume exhibit conditional pattern formation. Buff Dormeier, CMT, has applied technical analysis extensively in portfolio management, focusing on volume as a leading indicator for prices. His work is detailed in his books on volume (2011 and 2024).

Fundamental analysis is also prevalent in practitioner finance. For example, billionaire fund manager Bill O'Neil collected stock data from the 1960s to the 1980s and developed the CAN SLIM method, which involves selecting stocks that are leaders in their industry based on price, volume, institutional ownership, sales, and earnings per share growth. The 'M' criterion, related to market direction, is more challenging to scan. O'Neil founded Investor's Business Daily (IBD), recently acquired by the Wall Street Journal.